



September 28, 2007

Mary P. Levine
Acting General Counsel/Director, Office of Legal Affairs
Michigan Housing Development Authority
735 East Michigan Avenue
Lansing, MI 48909

**Re: Comments on the Draft
2008-09 QAP**

Dear Ms. Levine,

Detroit LISC is generally in support of the priorities established in the draft 2008-09 QAP; the comments below will detail our support for the many features that we feel represent a substantial improvement over the current QAP, and outline concerns that we feel should be adequately addressed prior to the recommendation of the QAP to the MSHDA board.

HISTORY OF LOCAL INITIATIVES SUPPORT CORPORATION

Since its founding in 1980, LISC has marshaled more than \$7.8 billion from 3,100 investors, lenders, and donors to become the largest nonprofit community development support corporation in the country. In over 300 urban and rural communities nationwide, LISC has helped 2,800 organizations build or rehabilitate more than 215,000 affordable homes and almost 30 million square feet of retail, community, and educational space - totaling almost \$22.3 billion in development. As a result, hundreds of thousands of people have better lives and brighter futures.

In Detroit, LISC has been supporting local development efforts since 1990. During the past 27 years, LISC has invested over \$100 million and leveraged an additional \$650 million in funding for revitalization efforts in Detroit neighborhoods, which has resulted in the planning and production of 3,217 units of housing and 567,062 square feet of commercial real estate.

In 1987 LISC established an affiliate, the National Equity Fund, Inc. ("NEF"), as a syndicator of low-income housing tax credits. During the past 20 years, NEF has funded some 1,500 projects in 43 states and raised \$5.5 billion for investment, resulting in the development of 80,000 homes. NEF has done this by supporting the efforts of 550 local development partners and leveraging its resources with nearly 150 banks, insurance companies and other corporations committed to affordable housing development. NEF's current funds include capital from 25 top investors that is being directed to single- and

multi-family projects, special needs developments, public housing revitalization and historic rehabs.

Today, LISC is building upon the progress of physical revitalization efforts in neighborhoods across the country by establishing a program of “Sustainable Communities” to support broader issues of neighborhood health and long-term progress. The campaign has five core objectives:

1. Expanding capital investment in housing and other real estate;
2. Building family income and wealth;
3. Stimulating local economic activity, and connecting it with regional economies and beyond;
4. Improving residents’ access to quality education; and
5. Developing healthy environments and lifestyles, including safe streets, recreational amenities, community health clinics and environmentally sound design.

The Sustainable Communities campaign seeks to integrate these strategies to create outcomes of transformative scale for our neighborhoods, so that they evolve into places where human opportunity and social and economic vitality combine with a continuous process of growth, adaptation, and improvement.

Here are the comments of Detroit LISC regarding the proposed 2008-09 QAP:

Improved process for public comments – Detroit LISC would like to commend MSHDA for providing more opportunities for public comment in the form of the public hearing process conducted in the spring and the information session held in Flint on August 30th. It is clear that MSHDA incorporated a number of suggestions made by stakeholders from the spring session. Once the QAP is finalized, we would like to suggest the creation of a LIHTC roundtable, consisting of MSHDA staff and industry participants, for the purpose of providing a quarterly or semi-annual discussion of issues affecting the program.

Public policy analysis underpinning QAP strategy – MSHDA has made a substantial improvement in communicating how it used data and its policy objectives to craft revisions to the QAP. Detroit LISC is supportive of the policy objectives that stress revitalization of urban centers, fighting poverty, the importance of CDC’s, and providing resources for supportive housing. The policy objectives re-orient the QAP as a resource for neighborhood development as compared to a resource that is scattered throughout the state without a strong focus. Unfortunately, there is a limited amount of State and Federal resources for affordable housing so there is a lot of stress on the LIHTC program to respond to a large number of policy issues. We feel that MSHDA has selected important priorities with which to focus the LIHTC program.

As MSHDA notes in the QAP, Section 42 calls for projects serving the lowest income tenants and projects obligated to serve qualified tenants for the longest period. The lottery did not ensure that. In Detroit, over the past three years, we have seen more LIHTC units at 50% and 60% of median income levels (this is also a factor of the amount

of subsidy available, which is noted below). Detroit LISC supports a QAP that encourages a better diversity of very low-income and low-income units. A strategy of mixed-income development is consistent with best practices that LISC has seen in successful examples of neighborhood revitalization that provide a variety of housing choices.

Creating a merit based system for the allocation of credits – Eliminating the lottery and returning to a scoring based system is consistent with the comments made by Detroit LISC as part of the spring public hearings. Past critiques of the scoring system have focused on the idea that applications evolve into a game of chasing points. We encourage MSHDA to streamline the scoring structure so that the most important priorities listed in the QAP drive the formation of projects. Developers undertake substantial expense in order to develop the best possible proposals and a merit-based system provides a strong level of confidence that the highest quality proposals will be awarded credits. Because the amount of credits is limited, it is possible that quality projects will not be awarded credits. But that is an issue with the amount of the resource, not MSHDA's objectives.

Supportive Housing – Detroit LISC strongly supports the production of affordable housing for residents that are considered part of a special needs population, and a strategy as outlined in the QAP that seeks to bring together the resources of MSHDA to help broker strategies for successful supportive housing developments. There are a few issues we ask that MSDHA look at more closely:

- * Sufficient financial resources: the amount of subsidy on the development and operating sides is limited. In Detroit, the City has not allocated HOME funds for new LIHTC projects in four years and the Detroit Housing Commission has not been allocating project based Section 8 for developments outside of its own portfolio.
- * Connecting supportive housing to long-term neighborhood development plans: analysis of supportive housing projects should emphasize a strong link between the needs of the residents in the neighborhood (or within a city or county) as well as with the long term objectives of the developer.
- * Strong developers and strong social services – the review process should emphasize developers that can demonstrate a strong commitment and track record with special needs populations, and ones that have successful partnerships with agencies that provide a rich menu of services for these types of projects.
- * Ten percent requirement – Detroit LISC has concerns around the requirement that projects not within a supportive housing holdback must have a minimum of ten percent of units set aside for special needs residents. It may be difficult to build a sustainable long-term program for ten percent projects. And developers with limited experience and limited interest in building supportive housing may have to, leading to a scenario where there is not a strong commitment on the part of the developer to the success of the residents in the units. Also, the ten percent requirement as a mandate does not allow for situations in which specific affordable housing projects without a special needs population can be part of a neighborhood development strategy.

- * Grandfamilies – Detroit LISC is asking that MSHDA consider grandfamilies as an eligible special needs population within the context of a supportive housing project. In Michigan there are 143,523 children living in grandparent-headed households (5.5% of all the children in the state). There are few, if any, existing developments in the Detroit metropolitan area that provide a housing environment combined with social services tailored for grandparents as caregivers. We feel that defining grandfamilies as a special needs population is justified as a strategy that would prevent homelessness, support a stable housing environment in which children are with a close family member, connect children with consistent access to education, and provide resources for the challenges that seniors typically face, but are now exacerbated by the stress of raising children at an advanced age and with limited incomes. Additional information about the issues faced by grandfamilies can be found at:
 - National Human Services Assembly Policy Brief #20, “Strengthening Grandfamilies through Respite Care.”
<http://www.nassembly.org/fspc/documents/Brief20.pdf>
 - “Raising Buildings for Grandparents who are Raising Kids” (Chicago Tribune):
http://www.chicagotribune.com/classified/realestate/special/aac/chi-mxa0603plus_rejun03,0,7785239.story?coll=chi_classified_realestate_util

Single-Family Rehab – we ask that the prohibition on single-family rehab be removed. Single-family rehab can be one tool that is part of a larger neighborhood development strategy; the importance of this tool has increased with the tougher economic climate. Public officials and neighborhood leaders are grappling with responses to the neighborhood impact of foreclosures and distressed single-family stock sitting next to stronger community assets. One CDC in Detroit has been cited as a success story for its concentration of new development (LIHTC and homeownership) about a mile away from one of the City’s stronger middle class neighborhoods (one designated under the City’s NDNI program). In between the CDC’s targeted initiatives and the NDNI area is an area full of blocks of stable housing that is now under pressure, where in the last two years there has been an increase in vacant homes due to foreclosure and other economic issues. With a single-family rehab strategy, the CDC has the ability to stem the deterioration of housing at an early stage and maintain the stability of the neighborhood, while at the same time reinforcing the area where it has been conducting its new construction activities and reinforcing the NDNI community. A single-family rehab model using tax credits has been successfully used in other parts of the country; examples can be found in Cleveland and New York City.

Preservation – Detroit LISC believes a holdback for preservation, although smaller than in the current QAP, is warranted because there are a number of these type of projects that may not fare well against other projects in a general round based on a competitive scoring system and there is an important public policy priority to saving existing affordable housing that has been developed with some type of federal resource. In Michigan, more than 12,000 HUD-assisted apartments were lost between 1995 and 2003. Looking forward, 447 project-based Section 8 properties with 36,499 assisted units will expire in

Michigan before the end of FY 2012. We concur with MSHDA's approach to encourage developers to use other resources other than 9% credits for the financing of preservation projects. However, there are preservation projects which will only be feasible with 9% credits. As part of the threshold criteria for 9% credits, MSDHA could require developers to demonstrate that their preservation project is not feasible with other financing resources.

Green and Sustainable Design – LISC at the national and local level is making stronger efforts to encourage community development projects to weave sustainable building practices into the fabric of their work, as well as have all real estate development projects get built as green as possible. In the context of the QAP, we support MSHDA's effort in this regards but recommend that flexibility be permitted with regards to the type of certification that the developer chooses to use – i.e. that a project would be considered “green” as long as the developer chose to build to a nationally or locally recognized green standard, such as LEED, Green Communities or Energy Star.

The importance of a requirement in the QAP with regards to green design is important because the State of Michigan allows a building to be built to local code even when that code does not address energy efficiency standards. WARM Training Center in Detroit has found that the cost and recovery periods for single-family housing is decreasing, and it is not unreasonable to assume the same is true for multi-family development.

Green and sustainable design is becoming the standard in many other parts of the country, but Michigan has lagged behind. As part of developing an economic infrastructure in Southeast Michigan that retains residents and attracts families to move here, it is critical to incorporate residential design standards on par with other parts of the country.

Targeted Neighborhood Development Initiatives – Aside from the holdbacks already listed in the QAP for NDNI or for CDC's developing projects in areas with community revitalization plans, the scoring structure should include additional points for projects in neighborhoods that are part of a targeted initiative from a governmental agency or a funder. In Detroit for example, various neighborhoods are part of programs operated by the Mayor's Office of Neighborhood and Commercial Revitalization, are designated as a Cool Cities neighborhood, are part of the Skillman Foundations Good Neighborhood Initiative, or have been participating in Detroit LISC's Investment Areas. Any project seeking to be eligible for these points would need to include in the application a description of how the project and the sponsor's long-term development strategy is connected with a targeted neighborhood initiative. Providing additional points would encourage more projects in areas where there is a concentration of investment.

Concentration of LIHTC projects - Could the QAP policy lead to an over concentration of tax credit projects in urban areas? In most Detroit neighborhoods, tax credit rents at the 50% and higher levels are the market. At that level of rent, the issue is not so much a question of concentrating poverty, it's more of a question of concentration of rental as compared to for-sale. In some communities, there can be a substantial

appetite for tax credit housing, especially in areas in which the quality of existing housing is an important issue. Detroit LISC would like to see MSHDA take the amount of existing, quality rental housing into consideration when analyzing projects, with the intent to insure that appropriate opportunities remain for a homeownership strategy. Within the context of supportive housing, a concentration of special needs housing in a single neighborhood over several projects would deserve consideration if that neighborhood is taking on an undue burden of supportive housing units. That is a complex question. Certainly, a concentration of supportive housing can be a positive for a community, for example if there are a number of projects supporting a variety of special needs populations and if there is strong asset management combined with a strong social service program.

Two rounds a year - many stakeholders called for two rounds a year and MSHDA responded by maintaining that schedule for 2008 and 2009. As for another round in 2007, we believe that it will be difficult to process. Even a round held in October would not have decisions made until 2008, when a new QAP should be in place. Furthermore, all of the 2007 credits are being allocated with the current round. We believe 2008 credits should be allocated under the new QAP. Also, a December round may be too soon, given that the final QAP will not be available until November at the earliest, and that provides a short turnaround for developers, especially given the scope of changes. We feel that it would be better to advance the timeline for the first round of 2008, so that the next round can be conducted in a way that provides time for developers to assemble quality projects and allows MSHDA to establish its own internal processes to efficiently manage the round.

Cure Period and Shelf Life – the cure period is a good idea that will allow good projects that should get credits from being eliminated from consideration due to a non-material error (another example of MSHDA listening to stakeholders). Detroit LISC would like MSHDA to give further consideration to extending the shelf life of market and environmental studies to a year. Perhaps concerns over that extension on the part of MSHDA could be alleviated by some type of certification by the developer or the market/environmental firm attesting to the lack of any material change for reports older than six months.

LIHTC Allocation Limits – clarification is needed on the maximum number of applications from a sponsor and the maximum award of credits:

- * Maximum of two applications per round from a sponsor – what is the definition of a sponsor? How does this apply to sponsors that submit applications on their own and then submit applications that are part of a partnership? Also, consideration should be given to the idea that a cap at the level of three or four applications might be more appropriate.
- * Maximum amount of credits for a single project – these amounts (30% is cited for some of the holdbacks) seem to conflict with the provision that a single sponsor may not receive an allocation greater than 10%. Consideration should be given to the idea that 30% for a single project is too high. These percentages as listed in the QAP are based on the annual credit available.

Workforce Requirements – we are asking MSHDA to reconsider the proposed requirement that would link compliance with workforce requirements to the issuance of Form 8609 to the IRS. The feedback that we have received from NEF, one of the country’s biggest syndicators and an affiliate of LISC, is that such a requirement could be perceived as such a significant risk that syndicators could become much more wary of investing in the Michigan market. In addition, the workforce requirements should be evaluated more closely for their impact on the development costs of projects. Our concern is that increasing costs may make some projects infeasible and reduce the overall number of units that are created through the tax credit program. We would like to see a balance between the social goals of the workforce provisions and the impact on the cost side of projects.

Other Technical Issues -

- * Reserves have been removed as part of the calculation for developer fees. We feel they should be included and that the overall cap per project is sufficient to achieve MSHDA’s goal of establishing an appropriate level of developer fee.
- * Requiring three equity bids – if a developer selects a bid from among the three that is not the highest price, then they should be given a chance to explain in writing as part of the application why they have done so. Price is an important element, but should be seen as one of many features that results in the best syndicator proposal for a project.

Detroit LISC thanks MSHDA for the opportunity to comment on the draft QAP. We look forward to continuing the progress of neighborhood development in Detroit using low-income housing tax credits and other programs of the State as critical resources.

Sincerely,

Deborah Younger

Deborah Younger
Executive Director